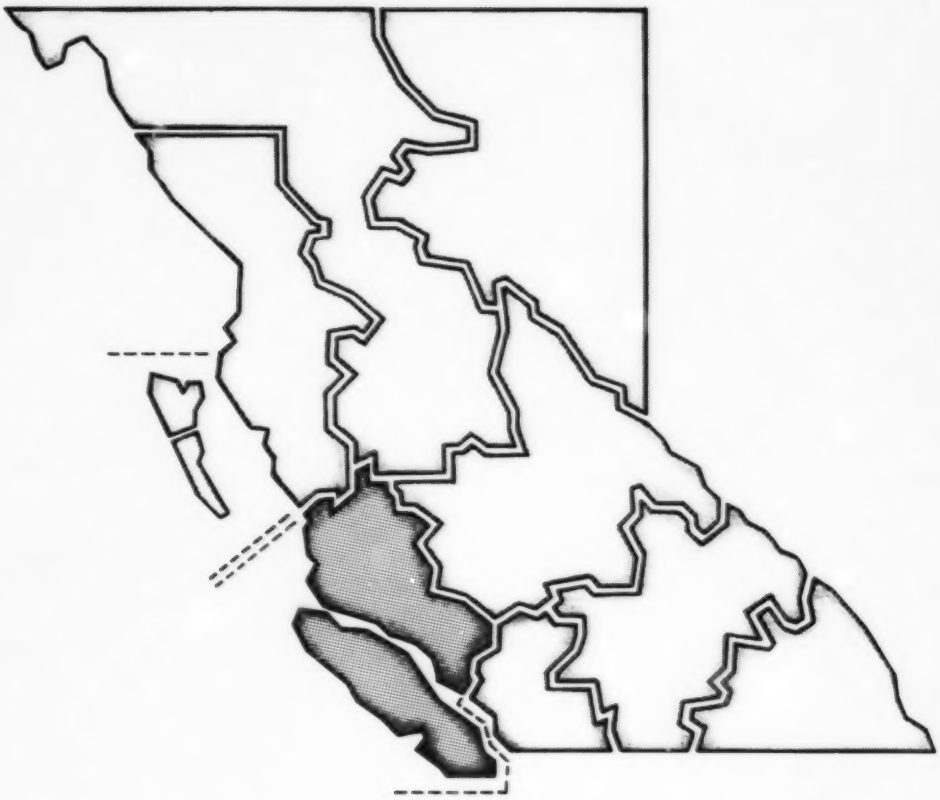
VANCOUVER ISLAND/COAST REGION 1 - FORESTRY TASK FORCE

MARKETING
SPECIALTY WOOD PRODUCTS



Report based on conferences at: Quesnel, November 1, 2, 1991
Parksville, November 8, 1991

Co-sponsored by:
Ministry of Economic Development, Small Business and Trade
Parksville Economic Development Committee

Prepared by:
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This report is based primarily on a Marketing of Specialty Wood Products Conference on November 8, 1991, in Parksville. It also includes information presented at a similar conference in Quesnel on November 1st and 2nd, 1991.

The conference in Parksville was the third in a series of value-added conferences organized by the Vancouver Island/Coast Forestry Task Force.

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Gillian Trumper, Mayor, Port Alberni
Art Westaway, Qualicum Beach Resident

DATE: February 21, 1992

1. EXECUTIVE SUMMARY

This report provides information on export markets for British Columbia specialty wood products. It provides useful ideas and concepts on effective marketing from experienced practitioners.

Some points were repeatedly stressed including:

- the need for market research to understand business practices, competition, distribution channels, product opportunities, cultural preferences, etc.;
- the need to understand fully each customer's specific requirements by continuous direct communication;
- successful entry to a market often requires patience and a carefully prepared marketing plan;
- most customers want long-term business relationships and a stable product supply;
- commitment to maintaining product specifications especially with respect to drying;
- quality, just-in-time delivery, packaging and after-sales service are often more important than price in achieving a sale;
- choosing the best distribution channel is an important marketing decision; and
- employees should be trained to understand customer requirements.

Successful marketing programs of small specialty wood product businesses are reviewed as examples of what can be done.

This report notes product opportunities and discusses competition in major export markets. These opportunities are confirmed in a number of market studies that are reviewed in this report. These studies are samples of the wealth of information available to British Columbia manufacturers.

A number of agencies provide valuable assistance to British Columbia producers in developing export markets. Their services are outlined in this report.

There are many strong challenges, including fierce competition, for British Columbia specialty wood product manufacturers. However, we have some of the best wood fibre in the world and many market opportunities. Success requires the unusual combination of creativity and close attention to detail.

2. INTRODUCTION

2.1 BACKGROUND

The purpose of this report is to provide information on export markets for British Columbia speciaity wood products. It is not a comprehensive report that covers all aspects of marketing or all possible products in all possible markets. Rather it summarizes the thoughts of some practitioners who are engaged in marketing specialty wood products.

This report is based on presentations that were made at wood product conferences in Parksville and Quesnel. The Quesnel conference covered more than marketing but only those presentations that had something to say about marketing are summarized in this report.

Some of the concepts and ideas were discussed by more than one speaker and are repeated in this report. This repetition demonstrates the importance of these ideas for businesses that want to successfully penetrate export markets.

Additional information has been included to demonstrate the wealth of information and assistance that is available.

- Some speakers have been contacted to elaborate on their marketing experience.
- A number of reports are briefly reviewed as a sample of readily available information.
- A number of organizations assist British Columbia wood product exporters. Their services are briefly described.

2.2 DEFINITIONS

The terms, "value-added", "specialty wood products" and "commodity lumber" do not seem to have generally accepted definitions. The following will suggest logical definitions that will be used for purposes of this report.

"Value-added" must be related to something. (Adding value to what?) The term refers to adding value to products and waste wood traditionally produced by the forest industry. The term originated with economists, civil servants and industry leaders who wanted more processing of natural resources to create more employment and more profit. Salvaging by rough sawing material that would otherwise be left or burned at a land sort is obviously adding value.

Cutting out defects and finger jointing is also adding value as is producing furniture from clear cedar. Obviously all of the resulting products have value added to them but would not necessarily be described as "value-added" products.

For purposes of this report "specialty products" is a more useful term to distinguish them from commodity products. Specialty products are produced for a limited number of customers and the specifications meet their particular needs.

In contrast, commodity products have standard (generally accepted) grades and large numbers of users. The product from one producer is not easily differentiated (distinguished) from the product of another producer.

One way that producers try to get higher prices is to "differentiate" their products from similar products of other producers. Petroleum companies try to differentiate their gasoline by adding TCP and other compounds of unknown benefit. Toothpaste companies do a better job with their brand names.

Specialty wood products can be differentiated to some extent. They can be differentiated by:

- precisely meeting the individual customer's specific requirements;
- packaging;
- after-sales service;
- "just-in-time" delivery; and
- labelling (product identification).

For purposes of this report we will refer to specialty wood products to distinguish them from commodity lumber.

3. MARKETING OVERVIEW

3.1 MARKET OPPORTUNITIES

Bob Craig, the president of Carroll-Hatch (International), has many years of experience in the British Columbia solid wood products industry. He was a principal consultant in the developing of a strategic plan for specialty wood products. Craig gave an overview of the specialty wood products industry at the Quesnel conference.

He stressed that there is a world demand for British Columbia wood fibre because of its high quality. To profitably take advantage of this demand, British Columbia producers need to research the markets and develop effective marketing programs.

Specifically, the industry needs to promote British Columbia wood products cooperatively:

- to raise the profile of quality products from British Columbia; and
- to counteract substitution of wood by other materials such as steel, aluminum and plastics.

The industry can improve access to export markets by establishing quality standards and organizing a distribution system.

Opportunities that warrant investigation by export-oriented manufacturers include:

- components for the Japanese manufactured housing industry;
- specialty wood products made from domestic hardwoods; and
- kiln drying. (Energy costs are much lower in British Columbia than most major markets).

Challenges faced by exporters include:

- export markets have different preferences/cultures;
- the realities of import barriers and fluctuating exchange rates;
- the industry is facing a limited resource base and consequently is evolving from a volume to a value orientation; and
- instilling in management and employees a value/quality orientation when they have been trained to think in terms of production volumes.

3.2 MEETING CUSTOMER EXPECTATIONS

This section is based on Jim Bettles' presentation to both the Quesnel and Parksville conferences on "Customer Expectations." Mr. Bettles is a partner of BFP Export Services Ltd.. Mr. Bettles has 20 years experience in production and marketing of solid wood products.

Historically, British Columbia mills have not had to be too concerned with the specific requirements of individual customers. Dimension mills, especially in the interior, have focused on the commodity lumber market. The objectives have been to produce a product that meets standard, well-accepted grading rules at the lowest possible cost.

In this market with many suppliers and more users, there is little or no contact between the producer and the consumer. Unstable prices are governed by fluctuations in supply and demand which the individual mill operator cannot influence. Competition is based strictly on price as opposed to product differentiation.

Other mills, especially on the coast, produce lumber that is not really a commodity item but is purchased by large importers and trading houses. Usually shipped in larger sections, often as rough-hewn, green lumber, the purchasers dry, cut and grade our wood to fit individual customer requirements. These "middlemen" also provide financing, inventory, documentation services and other services that add

value by meeting the customer's expectations. (In both cases there has been almost no contact between the mill and the enduser to determine his particular requirements and expectations.)

Today, economic and political factors are encouraging British Columbia mills to add value to the timber resource and produce specialty products to meet particular customer needs. Obviously this requires different sorting and processing methods. Most importantly, however, British Columbia producers need to improve their marketing by focusing on individual customer needs.

Greater attention to all aspects of the trade and continuous communication with the customer are added responsibilities in an added-value program. Most international customers and their traditional suppliers are very experienced in the wood trade, knowledgeable of world markets and polished in dealing with each other.

On the other hand, most British Columbia suppliers of specialty products have less than 10 years experience and tend to be viewed as naive and inexperienced. Gaining the customer's trust and cooperation requires a professional approach.

From the beginning of discussions to the delivery of the product, all aspects of the business must be treated in a business-like manner. This includes, but is not limited to: communications, production, packaging, shipping, documentation and claims handling.

For British Columbia producers to compete successfully in international markets for specialty products, they have to know and understand their customers. Each customer must be treated individually as each has different expectations. Each deal should be treated in isolation. Every point in an agreement should be clarified to eliminate misunderstandings and the producer cannot make any assumptions.

The producer must find out as much information as possible. Is the customer an enduser, importer, agent or wholesaler? Is it a new product for the customer or is he looking for an alternate source of supply? What is the product used for? What are the important/essential characteristics? For example, will one face be hidden in the end product and as such its appearance is not important? If so which face?) To gain this information and the trust and cooperation of the customer, the producer must get as close as possible to the enduser.

What do these customers expect? (Sometimes more forcefully expressed as, "What on earth do they expect?") Having just emphasized that each customer has different expectations, it may seem inconsistent to make generalizations. However, there are some issues that often create problems for producers. The following highlights some pitfalls and offers suggestions on how to avoid them.

3.2a PRODUCT GRADE

Specialty products meet specific needs for individual endusers. The product requirements are seldom described in a general grading rule book. Once a grade is accepted, it is highly recommended that a trial order be shipped for purposes of confirming acceptance by both parties and overcoming any differences in interpretation.

Once the grade is accepted, the customer will expect continuity. Transferring the order to another mill or using different equipment is dangerous. Each mill has a different fibre supply, different equipment and different graders, and consequently the products will be different.

3.2b SIZE TOLERANCES

Customers expect tight size controls. The mill cannot assume that historical size tolerances are acceptable. Many customers require tolerances of + 1 mm/-0 mm to fit

their manufacturing process, but it is dangerous to accept unrealistic tolerances. Once accepted, they are expected and may be costly to achieve. Clarify the requirement in advance and do not accept unrealistic tolerances.

3.2c SURFACING & TRIMMING

The global expectations for clean, sharp dressing and trimming of specialty products is increasing. "Hit and/or miss" dressing and rough trimming of high-valued, specialty products is no longer acceptable. Appearance is important for many customers, as the product should look high-valued.

For instance, one highly specified end-use product from a British Columbia mill was readily accepted on the basis of a trial shipment. The criteria for producing this product had been carefully reviewed, but one factor was overlooked. The trial shipment was not trimmed by production equipment. In subsequent production runs, some pieces developed slivers on the ends and was not acceptable to the customer. Happily, the problem was solved by trimming prior to dressing, but this is an illustration of the challenges faced in meeting customers' expectations.

3.2d LENGTHS

Customers expect lengths to be as contracted. Historically mills have tended to cut over the specified length assuming that this would benefit the customer. However, the customer may require the exact length to meet their production requirements and they do not want to incur the cost of trimming the product. This is another specification that needs to be clarified with the enduser. Local mills cannot assume that oversize is better.

3.2e MOISTURE CONTENT

Much could be said about this criteria because there are so many variables. Consequently, it is an area that must be carefully reviewed when entering into a contract.

If the specification is a maximum of 14 per cent, the customer will not accept 15 per cent. Moisture claims are expensive and difficult to handle, but some mills continue to ship poorly dried products. The reputation of British Columbia mills is less than satisfactory on drying and must be improved to maximize market opportunities.

Part of the problem arises from poor understanding of the specifications. Vague terms such as:

"kiln dried max. 14 per cent M.C. ... product of the kiln",
"shipping dry ..."
"surface dry ..."
"kiln dried to 14 per cent at time of shipment" or simply
"kiln dried ..."

are not acceptable. The contract should include not only the maximum moisture content but also the average, and in some cases, the minimum moisture content. It should also state that the product is graded after drying to ensure it meets customer expectations.

Keep in mind that the customer's native language is probably not English. Therefore the specification must be clear and not subject to different interpretations. The customer expects to receive what he has historically required.

3.2f SPECIES

This criteria should be relatively easy to specify and yet problems develop due to misunderstandings. Sometimes a customer will specify spruce and receive SPF (spruce, pine and fir mixed) from interior mills. Similarly, some coastal mills have shipped hemfir when hemlock was required.

As a recent example, a supplier shipped Douglas fir against a hemfir order. The supplier understood his window order meant either hemlock or Douglas fir.

Mixed species may be acceptable for construction purposes or when the buyer will sort and reprocess but, for many endusers, only one species will meet their requirements.

3.2g PACKAGING AND SHIPPING

Packaging, shipping and presentation of the product are becoming increasingly important factors in acceptance of high-valued products. The producer may do an excellent job of manufacturing, but if the appearance is poor, the customer will not be satisfied.

International customers expect the product to arrive in their yard in excellent condition and well presented. Good packaging and careful shipping add value to the product. Conversely, products that arrive in poor condition will invite close inspection and possible claims. For many customers, presentation reflects the overall attitude of the supplier. If the appearance is poor, they think the quality will be poor and will want to carefully inspect the parcel.

Specialty wood products should appear high-valued. Here are some suggestions on packaging:

- neat piling with one length per package;
- clean, flush and sharp sawn ends;
- straps applied uniformly, equidistant from the ends;
- corner protectors for the strapping;
- paper wrap applied neatly;
- minimum number of staples - preferably aluminum; and
- stencilling uniformly applied with crisp lettering, preferably on packaging rather than on product.

Mode of transport will also affect the presentation. Every time a parcel is handled it is subject to damage. Break bulk shipments will be handled at least seven times between the production mill and the enduser's yard and handled the same as

low-value commodity lumber by operators who are production-driven. This frequent exposure will result in damaged products and time-consuming claims.

Container shipments are handled only two or three times if loaded at the production plant and delivered to the customer's yard. The protection of the container ensures delivery of a product in good condition.

Recently a German customer was not pleased with a poorly packaged shipment that had suffered considerable damage in transit. He graphically expressed his displeasure: "That parcel has more value than a Volkswagen. What would customers think if Volkswagens arrived in Vancouver in that condition?" His comparison was valid, but we are a long way from handling wood shipments as carefully as cars.

Marketing specialty wood products includes ensuring that shipments arrive in the customer's yard looking like valuable products.

3.2h CONTINUITY OF SUPPLY

In contracting with a new supplier, the customer wants to be assured of a stable, reliable supply. He can then plan his business with some confidence and make commitments to his customers.

Similarly, the supplier would like to have an assured demand for his product. Both parties normally agree this is a primary intention. Unfortunately this intention is often not achieved. Something goes wrong and international markets tend to look at British Columbia producers as opportunistic sellers and treat us accordingly.

Producers offer many reasons (excuses?) for this lack of continuity:

- "We lost our raw material supply";
- "The program was too costly";
- "We found another buyer/market which will pay more";
- "The customer must take the fall-down to make the program work";
- or the vague comment, "We just decided to discontinue the program."

These no doubt are valid reasons for wanting to back out of a commitment, but these should be examined prior to taking the first order. Potential problems should be openly discussed and cooperatively solved with the customer.

One reason for the lack of commitment is the commodity environment that most mills are used to working in. When demand is poor and prices low, mills scurry around to find alternative markets, but when prices recover and the traditional business becomes more profitable, some mills will drop their new customers to maximize short-term profits and cash flow. In short, our industry generally has a much shorter-term focus than European and Japanese businesses. This is one reason these markets are so hard to break into.

Significant damage is done to the reputation of the industry by taking on commitments that will not be maintained.

3.2i PRICING

This difficult issue clearly has industry implications. The general consensus in the industry is that customers expect to receive top quality products at extremely low prices. It has been stated that this is not a commodity industry in which everyone has to fight to remain competitive.

Many specialty product users are as interested in quality, stability and service as they are in price. This is partly because the wood product may be a small portion of their total cost and the cost of production can be adversely affected by poor quality and delayed shipments.

That is not to say that specialty products do not experience significant price erosion. They do, but frequently the cause lies in the British Columbia industry. Poor marketing ability results in producers copying successful programs of other firms. This leads to oversupply and downward price pressure. The item tends to become a traded commodity with many participants in the market.

An example is the hemlock window scantling business. Initial producers of this product received $1500 per thousand board foot and with greater acceptance prices reached $2000 per thousand board foot. Too many mills jumped into the market with inconsistent quality and poor service. As a result, prices tumbled and many firms left the business. The window business became a commodity business in the eyes of the customers and it confirmed their view that the British Columbia industry is opportunistic.

British Columbia suppliers have a reputation for aggressive pricing. When markets are soft, mills automatically undermine each others' prices until the products become unprofitable. The customer is in an uncomfortable position. Although he wants a stable relationship, he fears that his current supplier or another British Columbia mill will sell to his competitor at a lower price. This results in tough bargaining on price even though the customer can, and is willing to, pay more. He needs to be assured that his competitive position will not be eroded by subsequent lower prices for his competitor.

In short, British Columbia mills should compete more on quality and service and less on price. The industry is based too much on shut-down economics. Mills are built and operated on the basis that they will be the last to shut down in difficult markets.

More responsible marketing by differentiating the product and researching customer requirements will result in stable, profitable prices that the customer is pleased to live with as long as their buying position is protected. They do not want to have their competitive position eroded by unstable pricing.

3.3 IN SUMMARY

These expectations are required by many, but certainly not all customers. They demonstrate that more is expected of specialty wood products than commodity lumber. Buyers are cautious in dealing with British Columbia producers because of historical performance.

The following quotation from a European consumer illustrates this reputation:

> "All people in North America knew since last July that green lumber would no longer be accepted. Now all guys still sit and push COFI to act against the ruling instead of making plans to build kilns and to organize shipping ports to cover kiln-dried products in dry storage. The shipping lines will immediately follow once they have no deck cargo allowed. We understand your industry is doing testing with wax, drying methods, paper, etc. The enduser has not been asked what they prefer. Everywhere in the world people are setting up kilns as they feel this is a value-added program. The only place left in the world where soft wood is shipped green is the west coast of North America. If log exports were still allowed, all forest people would still prefer to sell logs as they do not carry any problems around. Get away from the 'wait-and-see' attitude, to let's do it now. It's a real chance for your industry."

The reputation of the industry can be improved and greater confidence in British Columbia suppliers achieved by professional marketing and proven performance.

Increased production of specialty wood products is the correct strategy for British Columbia's forest product industry. It requires increased emphasis on skilled marketing and satisfying customer expectations.

4. MARKET REVIEWS

4.1 GERMANY

The following section is based on Klaus Radenbach's presentation at both conferences. Radenbach's company is a medium-size lumber dealer that imports, retails and wholesales a wide range of building products. R&S Radenbach and Spaing Holz-Zentrum also have a division that installs building components such as doors and windows. In preparing for this presentation Mr Radenbach contacted many others in the German wood products trade including: agents; remanufacturers; and trading companies.

4.1a TRENDS IN CONSUMER TASTES AND NEEDS

Since the Second World War, there have been marked changes in consumer attitudes. Immediately after the war, the primary demands were simply to satisfy basic needs for housing, but in the 1960's the need to show wealth and status became important. With the advent of the environmental movement, people became more attracted to useful, long-lasting products.

Today's and tomorrow's customers are completely different and are difficult to define in terms of groups. "Individuality" and "self-expression" are the key words to describe the new customer. They will act in apparently inconsistent ways, wearing $500 shoes with blue jeans. Today's customer is more interested in lifestyle than in standard of living; quality rather than quantity; and creativity over conformity. Customers will buy products to demonstrate their individuality and will be much more critical in selecting what to buy. Hence, the market will be even more dynamic and difficult to predict.

But these trends will present great opportunities for businesses. The consumer wants complete systems of products with a high degree of convenience, intelligence and

design. The consumer will select high-quality products to create a personal style. These customers will be difficult to satisfy, but adapting to their needs will be the key to any marketing strategy in the retail and building business in Germany.

These trends will present great challenges to their suppliers. British Columbia producers of specialty wood products will have to work very closely with their German customers to help them adapt to changing product lines. Distance from the European market creates transportation and communication problems which must be overcome to compete successfully with the Russians and Scandinavians. But the strongest competitor for consumer spending on wood products is not the mill in Sweden or another distributor in Germany, but spending on automobiles, recreation, travel and other products through which the consumer can express his individuality.

4.1b GROWTH AND COMPETITION IN THE EUROPEAN MARKET

Europe has over 300 million consumers, of which Germany has 80 million, consuming approximately 30 million cubic metres of lumber. This consumption will grow substantially as the states in eastern Germany become prosperous. Germany, like France and Portugal, produces most of their lumber products from domestic forests. Britain, Italy, Belgium, Netherlands, Spain and Greece import the bulk of their lumber requirements.

The Eastern European countries will switch from exporters to net importers. They have overcut their forests in order to earn hard currencies. They will, therefore, become a smaller factor in western European markets, and as their economies are rebuilt, will themselves become significant importers.

Scandinavian and Russian suppliers dominate the German market for imported lumber. The Scandinavians are experiencing a serious recession and as a result are concentrating on export markets for their softwood lumber. They have used astute marketing, sophisticated distribution systems and close contacts with their direct customers to achieve profitable sales of specialty wood products. Frequent communication to exchange information on customer needs permits rapid adjustment

of product specifications. This confidential exchange of information has created a climate of trust between the producer and their clients for mutual benefit.

In contrast, Russia will not be able to maintain its market share because:

- the industry is in turmoil over the question of ownership control;
- there is a lack of capital for privatizing the industry; and
- they are not market-oriented and possess poor marketing skills.

The demand for tropical hardwoods will decline dramatically due to the environmental concern over the destruction of the tropical rainforests. Most hardwood products are imported by German companies with cutting rights in Asia and Africa. The aggressive campaign by environmental groups has led to the public perception that the destruction of the rain forests are the result of commercial logging. As a result, tropical hardwoods cannot be used in public buildings, and the objective of the environmental groups is to completely eliminate the importation of tropical hardwoods.

Curtailment of tropical hardwood imports will create opportunities for other suppliers, including North America, as traditional hardwood users scramble to find replacement products.

Portugal, Brazil, Chile and New Zealand will increase their presence in the European lumber market. All have major sources of plantation pine and eucalyptus.

Canada can continue to play a large role because it can supply a wide variety of species and has the manufacturing capability.

Some German importers and remanufacturers have complained that it is difficult to establish close relationships with Canadian producers through agents, because the agents have attempted to establish direct contacts with the importers' customers.

There is also concern regarding the frequent changes in sawmill ownership because of the disruptive effect it usually has on continuing close relationships with German customers. German businesses want to maintain stable, ongoing relations with their suppliers. Thus they also criticize marketing strategies that focus on short-term profits when prices for solid wood products are high in the North American and Japanese markets.

4.1c THE ENVIRONMENTAL CAMPAIGN

There is also a major campaign by environmental groups to prohibit imports from North America. Already a number of articles and photos depicting destruction of west coast rainforests have created the impression that the environment is being permanently damaged.

The environmental offensive conducted by a number of groups could have a devastating effect on the European market for British Columbia wood products. Unless there is an effective campaign to counteract this adverse publicity, German consumers and public agencies will avoid lumber from forests that they perceive to be poorly managed. Their attitudes can become quite positive toward our forestry practices if the campaign was to be done professionally and honestly.

4.1d MARKET OPPORTUNITIES

German mills can supply the bulk of the demand for low- and medium-quality softwood lumber and in fact, there is a large oversupply in the German market. The use of pallet stock and lower quality lumber for packaging is declining because of new laws that are intended to eliminate one-way packing. There is little demand for imported particle board as German producers not only supply the domestic market but are large exporters.

However, there is a demand for high-quality lumber for specialty products such as

window posts, furniture, veneer and other products that cannot be supplied by German sources. The design trend is towards light-coloured woods such as ash, maple and hemlock which are sometimes finished with a white stain.

Wood flooring, laminated beams and "garden wood" are three areas of strong demand and future growth. Wood flooring includes all types of pre-finished solid wood including particle board/OSB (oriented strand board) faced with a decorative high-pressure laminate. Prefabricated, laminated parquet is the fastest growing type with sales tripling in the last five years, supplied 50 per cent by domestic producers and 50 per cent by Southeast Asia.

Popular species used for solid wood flooring include Scandinavian pine and spruce, European and North American oak, ash and maple. However, flooring boards could also be made from Douglas fir, hemlock and alder if dried properly and precision machined with tongue and grove. The moisture content must be 8 to 10 per cent maximum, with common widths of 100 to 180 mm and thicknesses of 20 to 25 mm.

Laminated beams in standardized dimensions are very popular for design flexibility and high quality. Especially used in glass houses and outdoor living rooms, 90 per cent of the knot-free, light-coloured beams are made of German or Scandinavian spruce. German manufacturers have used other species such as red meranti, Douglas fir, hemlock and pine. German lumber dealers stock them in thicknesses of 6, 8, 10 and 12 cm, depths of 10, 12, 14, 16, 20, 26 and 30 cm. and 18 metre lengths, which minimizes waste in custom cutting to the customer's required length.

Laminated boards using hemlock, sitka spruce and western red cedar (and possibly alder) bonded with waterproof glue will find a ready market in Germany. They should be supplied in a wide variety of dimensions with no finger joints. Window beams in hemlock, spruce and pine are sold in Germany.

"Garden wood" demand started with simple fencing, but has grown to include gazebos, decks, trellises and furniture. These products have been made of pressure-treated pine, but there is growing environmental concern about using chemicals, especially chromates. Consequently there is increasing interest in western red cedar

and some German retailers have had tremendous success with imported cedar products. Dark red meranti and iroko from West Africa have also been tried, but with limited success. However larch (tamarack) from Eastern Canada and Poland may become popular within the next two years.

Small prefabricated log buildings are growing in demand as environmentally conscious consumers avoid processed building materials in favour of "natural" materials. They are used as recreational cabins, house extensions and small residences. Successful marketing depends on close contacts with architects, contractors or sales representatives.

4.1e MEETING THE MARKET CHALLENGE

The key to success is supplying the right product to the right market. Scandinavian and Russian producers have long-established markets with traditional links, providing a product mix that makes it possible for them to sell almost all of their products.

One way to achieve the right products is to sort and buck logs in the forest according to their end use.

DRYING FOR ENDUSE

Specialized facilities for drying specific products in relatively small quantities is another means to meet customer requirements. Flexible drying processes and technical knowledge will ensure excellent quality.

PRODUCT-ORIENTED QUALITY

This means sorting wood so that it has just the right characteristics for the particular product. Laminated spruce and pine boards from Scandinavia have been very successful because the producers have been able to understand the required quality.

PRODUCT ORIENTED LENGTH

Direct imports with just a notation of average length will not be acceptable. The lumber must be cut to the exact length suitable for the end product. For instance,

door stock needs to be seven and fourteen feet, while the "Do-It-Yourself" (DIY) market requires eight, nine and ten foot lengths.

CUSTOMER ORIENTED PACKAGING

Packaging should be attractive and well-designed to meet restrictions on waste generation. Requirements must be discussed with the customer because there will be increasing limitations on packaging materials such as metal and excess paper. Well-designed packaging can promote customer loyalty and close relationships with the importer and retailers. Brand recognition will make it more difficult for them to switch to other suppliers.

DISTRIBUTION CHANNELS

Choosing the vehicle through which to get products to German endusers is an important strategic decision. German customers such as home centres and remanufacturing plants want "just-in-time" delivery from reliable sources. Northern European suppliers, because of their proximity, can deliver truck-size orders within a few days of receipt of order. In order to compete, Canadian producers must work through a distributor. Not only does the distributor keep inventory but he can also provide market information, introduce new products in sufficient volumes, advise customers, suppliers, and deal with claims.

Agents are well-known in the market and have established sales and distribution channels. On the other hand, it can be risky working with one agent because the supplier cannot be sure how effective the agent will be.

Some remanufacturers and distributors want to establish close relationships with Canadian suppliers and import directly. For instance, Radenbach and Spaing import garden wood directly, not only for their own home centre, but for other dealers within a 160 kilometre radius.

Another means of distributing product in Germany is through the big buying cooperatives or hagebau. They have huge warehouses in four or five locations in Germany and at least 100 buying members.

In summary, the German and European wood markets will continue to rely on imports to supply some of their needs. It is up to the exporter to determine his share of the market by competing on quality, delivery and service terms.

4.2 UNITED KINGDOM

The following section is based on John Ingle's presentation at both conferences. Ingle has 45 years experience in the United Kingdom timber trade, having worked for Seaboard Lumber, UCM Timber and more recently for Montague F. Upton Limited. He has made frequent trips to the west coast of North America to visit and deal with wood producers.

4.2a MARKET RESEARCH

Any entry into the United Kingdom market has to be thoroughly researched. A number of British Columbia companies have jumped in, based on hearsay, only to find the reality much different and failing in their endeavour to enter the market. Professional advice from experts in the field is readily available and well worth the time and money.

Entrants need to study grading rules, the competition and pricing at various levels of the production process.

4.2b SPECIES AND SOURCES

The main softwood species used in the United Kingdom specialty wood product markets are European redwood (pinus sylvestris) and whitewood (picea abies). The North American equivalents are lodge pole pine and white spruce, respectively.

Redwood is preferred for its excellent planing with fine grain, tight live knots and smooth texture. These characteristics make it an excellent wood for laminating and remanufacturing. The whitewood is not as good but it is less expensive.

The Scandinavian countries and Russia are the main suppliers. Radiata pine from New Zealand, Chile and South Africa; Douglas fir, hemlock and western red cedar and some hardwood species from North America are also used for specialty products.

Lodge pole pine is accepted in the United Kingdom joinery and pine furniture trade and will gain an increasing share of the market for window and door blanks, door linings, panelling and architectural shapes. There have been problems in using lodge pole pine, but these are attributed to improper grading or failure to meet customer specifications on a continuous basis.

4.2c GRADING

The market has come to rely on Scandinavian grading rules because of their long tradition in the United Kingdom market. Many buyers and sellers accept "shippers' normal production" which usually are on the high side of Scandinavian grading rules. In Sweden and Finland shippers' production are graded into groups from one to four. Ingle thinks that lodge pole pine graded fifths and better, is equal to a group three Finnish production, fifth quality. This grade is used for lower quality joinery production and laminating blanks.

There is a good market in the United Kingdom for lower quality wood (sixths) for flooring, weather boards and fencing. Sevenths quality finds a ready market for packing and pallets.

4.2d MARKET OPPORTUNITIES

The joinery market can be accessed at various stages of the production process, from kiln-dried rough lumber to finished products such as mouldings and panelling.

The United Kingdom pine furniture market consumes approximately 250,000 cubic metres of softwood per year. The market has held up well during the recession due to the relatively low price of the final product and its favourable aesthetic appeal.

Demand exists for rough-sawn, kiln-dried lumber, edge-glued laminates and high-quality components.

"Do-it-yourself" (DIY) stores are a growing market for finished products such as: mouldings; panelling; laminated panels; and shelving. The product should be shrink-wrapped, and it requires a warehousing distribution system because the stores cannot carry much stock. The products must be competitively priced because DIY stores are not known for their loyalty to suppliers.

4.2e COMPETITION

Producers in Sweden and Finland have dominated the United Kingdom market for specialty products. With little competition they have been obtaining good prices for panelling, par goods, mouldings, etc. They can deliver small quantities by truck within a week or 10 days of order and the products enter duty free.

Russia supplies large volumes of rough-sawn products. The Czechoslovakian and Polish producers are entering the market but mainly with wood furniture. British and continental planing and remanufacturing plants are tough competition in supplying components and finished products.

4.2f INGREDIENTS FOR SUCCESS IN THE U.K. MARKET

For successful market penetration, producers must ensure proper kiln drying and adequate protection to keep the product dry during transit. Good packaging also will attract buyers, but it doesn't necessarily get the producer a better price.

The potential exporter must also:

- check grades and specifications;
- plan the program to ensure there is a home for the fall-down;
- assess the competition;
- ensure continuity of supply and delivery as per the contract (check on shipping schedules);

- arrange financing to meet the commitment; and
- be patient in developing the market.

Focused management can produce profitable sales in the United Kingdom market.

4.3 JAPAN

This section is based on a presentation by Ron Molander at both conferences. Molander has over 20 years experience in the Japanese lumber trade including ten years working in Japan.

4.3a THE PREFABRICATED HOUSING MARKET

Recently there has been a major shift in Japanese housing construction toward prefabricated housing. Traditional housing construction with its set standards, and numerous small contractors is very labour-intensive. Japan has a labour shortage and land prices are very high. In order to reduce the cost of housing, new and more efficient methods had to be developed.

Prefabricated housing has improved in quality and relative cost and is being accepted by Japanese consumers.

Lumber for prefabricated housing is viewed as a manufactured component ready for assembly in the manufacturing plant. It must meet the specifications because it will be shipped direct from the producer to the housing plant to arrive "just-in-time" for assembly. These are very large plants producing up to 50,000 houses per year.

Clear wood from old growth forests will become less important as prefabricated housing grows. Instead, demand will increase for laminated products such as finger-jointed, edge-glued and veneered components.

British Columbia producers need to understand the requirements of these housing plants and be prepared to commit the necessary resources to become a reliable, trusted supplier.

4.3b THE MARKET FOR MILLWORK PRODUCTS

External Affairs and International Trade Canada commissioned a report to examine export opportunities for Canadian millwork products to Japan. The 1990 report provides statistics on imports and assesses the prospects for Canadian flooring, staircases, panelling, mouldings and lumber manufacturers to produce these products.

Over 60 per cent of the demand for lumber in Japan is accounted for by millwork products. The demand is dominated by laminated/plywood products because of their uniformity and ease of handling. The growing shortage of skilled carpenters is resulting in a trend to watch manufactured components that are easy to install and require little after-sales service and maintenance. These components are generally selected from catalogues and must therefore be a reasonable facsimile of that depicted in the catalogue. Many end-users think that imports are not satisfactory and after-sales service is poor.

Demand for wood flooring has increased but it must have a very smooth finish because Japanese do not wear shoes in the house. Two main types of flooring in Japan are "solid-strip" and "composite." Solid-strip flooring is being replaced by composite flooring for which demand is growing rapidly. Imports supply only one per cent of all types of flooring consumption. U.S. manufacturers dominate the import of solid-strip flooring. Composite wood flooring imports come mainly from Thailand. Low-end veneer is the most popular composite flooring but high-end, thick-veneered flooring is increasing in popularity.

Staircases are made primarily from plywood but laminated veneer lumber used for high-end products is gaining in popularity. Commercial buildings are using more imported hardwood staircases.

Imports of staircases are increasing rapidly. Canada supplies approximately 30 per cent of imports but U.S. suppliers are expected to overtake Canadian producers due to their better brand recognition in the Japanese market.

Wood panelling is not popular in Japanese houses and only accounts for one per cent of wall coverings but the market is estimated at 6 million square metres per year. Panelling is used more in commercial buildings and demand is expected to grow with this sector.

The most popular panelling in Japan is koshiita, a waist-high panel, however western-style wall panelling has been produced by every major component manufacturer in Japan.

Imports supply a small share of the market but Canada is a significant supplier with red cedar, spruce, Douglas fir, pine and especially hemlock as preferred species.

Mouldings use in Japan is estimated at 260 million metres. Imports, mainly from the U.S., are increasing rapidly. They remain a small portion because they are decorative and Japanese prefer very simple designs.

Most domestically produced designs have no decorative work such as scrolling and are made from particle board covered with vinyl or plywood veneer. There is increasing interest in hardwood mouldings for western-style housing and commercial buildings.

4.3c THE JAPANESE MARKET FOR DOORS AND WINDOWS

Increasing demand for 2x4 and prefabricated housing has created opportunities for Canadian producers of quality door and window products.

The total market for doors in 1988 was estimated at 13 million units of which 3 million were exterior. Interior doors are mainly wood or metal flash doors but living room doors are increasingly made of solid wood. Only about five per cent of exterior doors are made of solid wood totalling 220,000 units in 1988.

Approximately 26 per cent of imported wood doors come from the United States. Canadian producers have a negligible share of the market.

Wood doors are used in single-family dwellings which are becoming a smaller portion of the housing construction. However there is a greater preference for wood in the houses that are being constructed. Japanese are willing to pay high prices for quality wood doors, up to C$5,000 for solid wood exterior doors and up to C$1,000 for solid wood interior doors. Japanese consumers are concerned with colour, design and quality of workmanship.

The total market for windows was estimated at 33 million units in 1988. Most residential windows are the sliding aluminum type although some are composites with wood or plastic to reduce thermal conductivity. Steel windows are used in commercial buildings.

Modern wood windows are new to Japan and domestic production is estimated at only 1500 windows per month. No vinyl-clad wood windows are manufactured in Japan but they are imported and sell well.

Approximately 53 per cent of imported wood windows come from the United States and Denmark supplies 29 per cent. Canadian producers supply three per cent of imported wood windows.

The most popular imported windows are double-hung, bow and bay windows in that order, with bay windows costing up to C$4,500.

4.3d BUSINESS PRACTICES

Price is always an important consideration as contractors and architects have to build within budgets, but quality of the product, after-sales service and availability are essential considerations.

End-users (home owners) are showing increasing interest in the selection of housing components but architects and contractors make the final decision. The components must fit in with the design and colour of the "total interior coordination."

Distribution channels are very complex in Japan and must be understood to make the best decision. The small producer can put his trust in a broker or exporter such as MacMillan Bloedel or Seaboard.

Pricing at the user level is up to 3.5 times the price at the producer level.

Success in the Japanese market requires a long-term view to build long-lasting relationships with customers. In particular they want to be convinced that new suppliers can maintain after-sales service.

4.4 UNITED STATES OF AMERICA

The following summarizes a market assessment of the Southern California market for specialty wood products prepared by D.P. Comstock for the Canadian Consulate in Los Angeles. This practical report lists many prospective customers and describes their businesses.

4.4a MARKET SIZE

This market has a population of nearly 14 million. Housing permits totalled 161,600 in 1988 with an estimated value of $16 billion.

Approximately 34 per cent of U.S. softwood lumber consumption is used for residential construction but almost as much, 31 per cent, is used for repair and remodelling. The DIY market is another major consumer of softwood products as is manufactured housing.

4.4b MARKET OPPORTUNITIES

Mouldings, sash and doors are stocked by wholesale and manufacturing firms who supply the retail lumber yards and home builders. The study lists four major suppliers and describes their business. For instance, Maple Bros. are looking for a source of white fir mouldings.

Unfinished furniture manufacturers are large buyers of component parts. The report lists five firms that produce "unfinished" furniture and are looking for new, competitive sources of parts in lodge pole pine, red alder and ponderosa pine.

Shutters are produced by 30 manufacturers in Southern California using moulded stock.

Residential and office furniture is manufactured by approximately 2,000 firms in the study area of which 59 are listed and described. Some expressed interest in Canadian sources of lodge pole and ponderosa pine, alder, engelmann spruce and birch. Two manufacturers' agents that sell to the furniture trade are Bill Gallien Associates, Inc. and Al Weitz Marketing.

Architectural millwork is changing rapidly. Most architects use the Woodwork Institute of California's Manual of Millwork for specifications.

4.4c MARKET ACCESSIBILITY

There are many wholesalers that cater to various sectors of the market. Many use Canadian wood products and most are anxious to handle new products/species for which they perceive a need. The report lists a large number of wholesalers and describes some of their product needs.

Comstock stresses the importance of maintaining quality on a reliable basis. Apparently there have been a number of instances of Canadian producers failing to deliver as promised, creating a negative image for the industry. Shipments of lumber infected with borers of various types have also created problems. Kiln drying or pressure treatment is a recommended solution.

In conclusion, Comstock emphasizes the importance of understanding the customers' needs and filling those needs.

5. MARKETING IN PRACTICE

5.1 PREPARATION OF A MARKETING PLAN

This section is based on Peter Drake's presentation on developing a marketing plan at both conferences. Drake has over 20 years experience in international marketing of wood products. At the present time he is vice-president of marketing for Cariboo Fibreboard.

The essential decisions in developing a marketing plan are:

- What to produce?
- Where to sell it?
- How to sell it?

5.1a SITUATION ANALYSIS

The first step to making logical marketing decisions is an inventory of the firm's resources, including:

- raw material supply;
- management and labour skills;
- financial resources including unused borrowing capacity;
- plant and equipment; and
- infrastructure, such as economic transportation.

5.1b MARKET RESEARCH

Understanding the needs of possible markets requires asking the right questions and careful listening. Before commencing the research it is necessary to list the essential and important information that is needed.

Sources of information on export markets include:

- Canadian trade commissioners;
- industry associations, both domestic and foreign;
- B.C. Trade Development Corporation;
- consultants;
- buyers including agents, importers, distributors and endusers; and
- competitors (because they do not want a new entry to offer sub-standard products and low prices that would ruin the market).

5.1c TARGET MARKET(S)

What group of consumers, specified by geography, economics, social status and culture does the firm want to serve? Perhaps the most important decision in the marketing plan is the selection of the target markets.

This will enable management to focus on meeting the needs of consumers in the target market. What are their preferences? How do they make their buying decisions? Where do they generally buy the product? How is the product delivered? How much are they willing to pay?

With sufficient research, these key marketing decisions can be made and the marketing plan finalized.

5.1d CHANNELS OF DISTRIBUTION

The marketing plan includes decisions on how best to get the product to the enduser. Foregoing sections have discussed typical distribution channels in different countries. In general, multi-tiered channels relieve the producer of many responsibilities to do with credit, insurance, transportation, claims, etc., but usually result in a lower net return and may interfere in the communication between producer and enduser.

Selecting the optimum means of distributing the product should be made so as to achieve the following objectives:

- conserve management resources;
- enhance market information;
- maximize customer satisfaction with respect to on-time delivery and claims handling; and
- minimize distribution costs such as transportation, insurance, bad debt losses, damage and warehousing.

5.1e PRICING

The pricing decision will depend on the distribution channel, and the target market. The price paid by a broker in Vancouver will be different than the price paid by a wholesaler in Germany.

Repeatedly, speakers at the conferences stressed that price should not be based on cost of production but rather on the value to the customer. The customer's needs and alternative sources must be fully understood to determine the value of your product. This is one reason why market research is so important.

Specialty products are differentiated by the degree that they meet the endusers' needs and therefore, the price should be a function of the value to the customer. In contrast, commodity lumber is not differentiated; Company A's construction grade lumber cannot be distinguished from Company B's. Price is the sole criteria for making a buying decision and therefore price is set by the market.

5.1f PROMOTION

Since specialty products are differentiated, it pays to promote your products. How the product is promoted will depend on the channel of distribution and the target

market. Personal selling, direct mail, pull-through advertising and samples can be cost-effective in different situations. Probably the most effective promotion is by way of referrals from satisfied customers.

The objective is to make customers in the target market aware of the value of using your product.

Your marketing plan will include methods of promoting your product to the target market and to businesses in the distribution channel.

5.1g BUDGET

Marketing programs cost money that must be budgeted for in the financial plan. Preparing a marketing budget enforces careful consideration of the most cost-effective means of marketing the firm's products.

5.2 CUSTOMER-ORIENTED EMPLOYEE TRAINING

Management and employees with experience in a dimension mill producing commodity lumber will have been trained to focus on production volume. In order to work in a specialty wood plant, their decision-making must be re-oriented to produce quality products. Employees must be trained to think in terms of the particular customer's needs.

Bob Craig, President of Carroll-Hatch (International) discussed customer-oriented training at both conferences.

Employees that make production decisions based on customer needs must understand:

- the manufacturing process;
- the business philosophy of the company;
- the specific quality requirements of the customer;

- the economics of manufacturing; and
- the implications (probable results) of the employee's decisions.

To meet these objectives requires:

- employees that have the basic skills and capability;
- a management commitment;
- frequent communication including customer feedback; and
- recognition of achievement.

Some companies have sent key employees to work in customers' plants to better understand the customers' needs. Trial runs to demonstrate how a decision at one stage of the manufacturing process affects other stages is time-consuming and expensive, but is an effective means of understanding the manufacturing process. Rotating employees between jobs is another way to achieve the same objective.

Other means of achieving customer-oriented training are:

- courses and seminars;
- have customers spend time in the plant to show employees;
- provide feedback on objective results;
- build a team approach; and
- have a competitor train employees in the competitor's plant.

Profitable production of specialty wood products will be difficult, if not impossible, without employees who are trained and committed to satisfying customer needs.

6. CASE STUDIES

6.1 SARITA FURNITURE - PORT ALBERNI

Bernadette Wyton and husband, Keith, decided in 1987 to start a business that used local resources as a raw material for a high-quality, export-oriented product. Ultimately they want to create a profitable business that would be a saleable entity.

They noticed a gap in the wood furniture market between expensive imported teak and poor quality, stapled together creations. Surrounded by cedar, a beautiful wood which is naturally weather-resistant, they designed and produced small quantities which they marketed on Vancouver Island and in Vancouver through retailers and consumer shows.

The marketing has changed greatly since then. In 1989 they went to Germany to attend two trade shows and do some market research. Through the Canadian Consulate and B.C. Trade Development Corporation they were introduced to three companies in the German furniture industry. One of the companies became their German sales agent and started taking one container per month.

More recently the Wytons have made marketing trips to Japan and the northeastern United States. The trip to the U.S. has resulted in some significant sales. The Japanese market will take longer and be more difficult to enter.

The following summarizes some of the lessons the Wytons have learned from these experiences.

6.1a RESEARCH

Effective marketing is based on a large amount of research the Wytons do prior to entering new markets. This includes gathering information on the outdoor furniture industry, competition, product opportunities, pricing, and distribution methods.

6.1b STRATEGIC PLANNING

Marketing is part of the whole strategy for the business and must be integrated with the company's mission and its capacity to produce.

6.1c PERSONAL CONTACT

Personal contact is essential to establish a good working relationship with the customer. Prior phone calls, letters and facsimile transmissions met with little response until the Wytons were able to meet the prospective customers, show them the product and describe their plans.

Personal contact enables the producer to determine what kind of people they are dealing with. Some are pleasant and informative but leave you guessing as to future business prospects. Others are opportunists who want to make a quick return and move on to something else as soon as problems develop. The third kind want to conduct business on a long-term basis and will clearly set forth their requirements and work with you to solve problems.

6.1d TRAVEL

Travel enables the producer to make the personal contacts and understand foreign markets. Many contacts will not produce orders but will provide information for better decision-making on product design, marketing, quality requirements, etc..

6.1e MARKETING STRATEGY

Based on their extensive research, the Wytons have developed a marketing strategy tailored to three different target markets.

The German market requires ongoing development with the agent to ensure quality standards, to introduce new products and adjust prices.

The Japanese market is being explored. Bernadette Wyton spent three weeks at an export study program in Japan to learn about the Japanese culture and business practices. She was able to contact businesses that might promote Sarita's furniture and has since sold some samples.

The United States market is being tested using a direct selling strategy. This includes exhibits at consumer garden shows, a distribution centre in Bellingham and targeted magazine advertising.

Sarita's marketing strategy is based on the following generalities:

The greater the value added to a wood product;

- the less the need for high-volume production;
- the less the need for large capital investments;
- the more viable a small operation; and
- the greater the choice in choosing target markets.

6.1f MARKETING ASSISTANCE

Sarita Furniture has received extensive assistance from the B.C. Trade Development Corporation who helped establish contacts, paid some of the cost to exhibit at a Boston Consumer garden show; and nominated Sarita for the JETRO (Japan External Trade Organization) export study program.

The Council of Forest Industries, MacMillan Bloedel Limited, Canadian consulates, Western Economic Diversification and the B.C. Wood Specialties Group have also provided assistance to Sarita Furniture in their efforts to develop export markets.

6.2 GORMAN BROS. - WESTBANK

Gorman Bros. Sawmills started as a fruit-box manufacturer. Changes in that industry forced the owners to look for other wood product opportunities. After considerable research they developed a program to produce quality boards. Visits to potential markets, discussions with distributors and endusers convinced the Gormans that they could compete in eastern U.S. and Canadian markets with other mills located in the northwestern states.

Gormans produce high-quality boards with a wide variety of enduses. They sell direct to major DIY retailers, house builders and remanufacturing plants. Some brokers and wholesalers also market their product.

After successfully developing the board program, Gorman Bros. entered the European joinery market. The United Kingdom market was thoroughly researched before shipments were made. Even then considerable adjustments had to be made to their drying procedures, sorting, grading and packaging. Subsequently they developed markets in France, Germany and Italy.

They sell through British Columbia agents with offices in Europe and through European agents with offices in Vancouver. They insist on maintaining communications with endusers and distributors to get feedback on changes and developments. The agents keep them informed as to market developments and trends.

6.3 C & C WOOD PRODUCTS - QUESNEL

C & C Wood Products began making lodge pole pine wall panelling in 1978. They developed markets in the U.S. and Canada but were initially hampered by being unable to procure a stable supply of raw material.

They have continuously expanded their manufacturing plant and integrated backwards to take control of wood supply. Recently they have been awarded two timber sales under the provincial government's value-added bid proposal program. C & C now employs 70 people.

They now produce edged-glued shelving as a use for their lower grade material and furniture components primarily from lodge pole pine but also use some coastal cedar.

From the start, Joe Cerasa, the principal owner, realized the importance of building good working relationships with distributors and customers. They need to have confidence in the ability of the producer to provide a continuous supply of quality products.

At the present time there are four people in the marketing department primarily concentrating on North American sales. A number of these people have extensive experience marketing British Columbia solid wood products.

C & C has developed markets in Europe and Asia but sell through small exporters and major distributors.

In developing a new target market, C & C personnel research the market to determine the possible customers, find out which distributors supply these customers and then persuade the distributors to handle C & C products.

6.4 CARIBOO WOOD SHOP - WILLIAMS LAKE

This small specialty wood product business on the highway between Quesnel and Williams Lake is owned by Kevin and Brenda Bourdon. They and four other employees produce wood furniture and gift items using mainly oak, lodge pole pine and cedar. The pine comes from local mills including laminated panels from the sawmill division of West Fraser Timber Company of Williams Lake. The cedar comes from coast mills.

They do some custom work for West Fraser and hope this aspect of their business will expand as West Fraser continues to develop specialty markets for their edge-glued panels.

Initially their products were sold to local customers at the shop. In order to broaden the market base, they now attend trade shows to make contact with retail stores, primarily in western Canada. They have a sales representative to follow up contacts that are made at the trade shows. Approximately 200 retail stores now handle their product. However, more than 50 per cent of sales are made through their own retail store on Highway 97.

Products are shipped by courier or bus express direct to the retail stores.

Future plans include targeting the tourist traffic on Highway 97. They will be erecting highway signs and advertising in the Cariboo tourist guide.

7. MARKETING AGENCIES

7.1 CANADIAN TRADE COMMISSIONS

The Canadian Department of External Affairs and International Trade maintains consulate offices in major export markets. Trade commissioners at these offices have information on export markets for major export products. Their role is to assist Canadian businesses to export products and services.

Specifically they will:

- provide lists of prospective customers;
- arrange appointments for visiting Canadian business representatives;
- provide market information and identify barriers such as tariff rates;
- organize trade missions for groups; and
- provide information on technological developments in foreign countries that may affect Canadian exporters.

This department in cooperation with federal Ministry of Industry Science and Technology, maintains business centres in major Canadian cities to provide information and assistance to Canadian exporters. They administer assistance programs, such as the Program for Export Market Development (PEMD) for Canadian exporters. PEMD provides financial assistance for trips to foreign markets, trade show exhibits and incoming buyers.

The federal Ministry of External Affairs "Market Place" program brings Canadian trade commissioners to centres across Canada to provide information on export opportunities by meeting with individual businesses.

The phone number for the Vancouver Business Centre is 666-0434.

7.2 B.C. TRADE DEVELOPMENT CORPORATION

B.C. Trade Development Corporation (B.C. Trade) is a Crown corporation created by the provincial government to help small- to medium-size British Columbia companies develop export markets.

The corporation provides training and counselling services to increase the knowledge and expertise of exporters. International Business Breakfast Series, Company Readiness for Export Program, Provincial Exporters Forum and New Exporters to Border States Programs are regularly offered. Individual counselling and specialized seminars are available to meet specific information needs.

Natural Resources Branch of the Marketing Division of B.C. Trade deals specifically with specialty wood products. They deliver promotional programs aimed at market development in major export markets. They work closely with industry groups such as the B.C. Wood Specialties Group, with Canadian trade commissioners and trade development officers of the Ministry of Economic Development, Small Business and Trade. This ministry maintains offices in major centres such as Tokyo, Hong Kong, London, San Francisco and Munich.

The Corporation also has an Export Loan Guarantee Program to encourage financial institutions to make loans on normal commercial bases to British Columbia exporters. B.C. Trade will guarantee up to 85 per cent of loans made by approved lenders for specific types of working capital to export-oriented companies. A fee of at least three per cent per annum is charged by B.C. Trade for the guarantee.

B.C. Trade also provides information to businesses through:

- **The B.C. Business Network,** a computer-based bulletin board with listings on business opportunities, British Columbia companies and information sources;

- **The B.C. Trade Showcase,** a permanent exhibition of products, services and technology that have export potential as a means of promotion to incoming buyers; and

- **The Business Info Centre,** a province-wide library service for directories, references, manuals, business profiles, market studies and listings of agents, distributors and trade shows.

7.3 B.C. WOOD SPECIALTIES GROUP

The BC Wood Specialties Group (BCWSG) is an industry association financed by the 38 members and the federal and provincial governments.

This association was formed to encourage and facilitate the growth of manufactured wood products in British Columbia. To accomplish this, the main programs include: marketing; publicity; training; and education. Activities include:

- organizing missions to export markets and competing wood-exporting countries. Plans for 1992 include missions to Sweden and Central Asia to gain general knowledge, and to Europe and Japan to focus on specific markets;

- establishing quality standards that will meet customer requirements and provide confidence in British Columbia-manufactured specialty wood products;

- developing an awareness of British Columbia specialty wood products in target markets by direct mailing brochures describing members' products and services, by attendance at exhibitions/trade shows and by speaking to groups and associations;

- researching markets to identify trends and opportunities. For instance, in 1992 the association will cooperate with B.C. Trade in a study of the Japanese manufactured housing industry. Some of the market studies are described in following sections of this report; and

- initiating special projects to promote members' products. Plans for 1992 include "Wood Specialties '92," an exhibition of Western Canadian specialty wood products to be held in Vancouver and targeted at international buyers.

For 1992, 55 per cent of the budget will be spent on training, education, out-bound missions and trade show assistance.

7.4 BROKERS AND INTEGRATED COMPANIES

Lumber brokers provide a wide range of marketing services to small producers. They are in frequent telephone contact with prospective buyers and thus have a great deal of market information. They will:

- make the sale;
- arrange transportation and documentation;
- collect on the credit; and
- negotiate claims settlements.

Some brokers base their business revenue on their market information and therefore are very secretive about who their customers are. This interferes with the communication between producer and buyer. In many situations the producer does not know how much the broker is making on the deal.

Other brokers base their revenue on the services they provide and will encourage communication between producer and user.

At least one broker acts as an agent for overseas purchasers and is paid by them. Their role is to find sources of wood products for their principals but they will work with local mills to meet product specifications.

Some integrated companies will assist small producers to find export markets. They have extensive organizations for marketing their own products but will handle others' products if there is a good fit.

For instance MacMillan Bloedel Limited put Sarita Furniture in touch with their agent in Germany. They offer Sarita furniture at their Japanese auction and stock Sarita products in the Boston area. They regard Sarita's cedar furniture as a good fit with their cedar garden program.

They work with a number of other small producers in similar ways in what they see as a partnership arrangement. Often MacMillan Bloedel is the primary supplier of raw material for these firms, but is not the sole only supplier. In some situations they buy the product and sell it through their marketing arm.

8. REPORT REVIEWS

A number of organizations are regularly studying world markets for specialty wood products. These include the Canadian and British Columbia governments, the Council of Forest Industries of B.C. (COFI), the BC Wood Specialties Group (BCWSG), and the U.S. Department of Commerce and the Centre for International Trade in Forest Products (CINTRAFOR) at the University of Washington.

The following is a review of a sample of studies to indicate the variety and extent of information that is available on markets for specialty wood products. These particular reports are available from the Natural Resources Branch of B.C. Trade.

a] Timber Supply - A World Perspective is a COFI report written by David Cartwright in November of 1990. It assesses the prospective supply from major producing countries. Although many countries, such as New Zealand, Chile and Sweden will be increasing their production, environmental concerns and depleted forests in other countries will provide opportunities for Canadian producers.

b] Hardwood Consumption and Enduses in the United Kingdom is a COFI report written by Gordon Uggla in 1985. This report describes the history of hardwood supply and consumption, identifying major species and sources. Due to increasing prices, export restrictions, stock depletion and environmental concerns, there are increasing opportunities for North American softwood mills. To satisfy this market, mills must ensure quality/drying standards, on-time delivery and good service.

c] Opportunities for Timberized Joinery and Construction Lumber in the U.K. is a COFI report that analyzes the supply and demand for preservative treated lumber.

d] Nexus Mission to The Los Angeles Basin is a BCWSG report on Bob Holm's trip in 1991. The report describes demand trends and summarizes meetings with companies and associations. It reports increasing demand for mouldings, opportunities for wood windows and the need to have an agent in the market. Large distributors will buy from small manufacturers. The market is more price-sensitive than quality-conscious. Prospective buyers and associations are identified with names of contacts and addresses.

e] One of the Market Studies of the United States is a Canadian Trade Commission sponsored study on the market for residential furniture in the northwestern states. The 1984 study by Ross Associates describes market opportunities, outlines a marketing plan and stresses the need for appropriate design.

f] Opportunities in Spain for Lodge Pole Pine Joinery Lumber is the subject of a COFI report written by Kettner in 1985. The main opportunity is in the rustic pine furniture industry. Kettner provides grades, dimensions and sawing criteria but stresses that these must be confirmed with the buyer.

g] Mexico: Update on Trade Opportunities for Solid Wood Products from B.C. is a COFI report written by Gilbert in 1990. With tariff reductions and privatization there is increasing potential especially in the furniture and pallet industries. Successful penetration will depend on energetic marketing and just-in-time deliveries at competitive prices.

h] Opportunities for Coniferous Lumber in South Korea is a COFI report written by Wilson in 1990. It notes large imports of saw logs from Asia, North America, Chile and New Zealand, but Korea also imports 3 billion foot board measure of lumber. There is increased potential for British Columbia wood products due to:

- falling import barriers, such as tariffs;
- korean labour costs are rising; and

- the rising middle class are becoming more interested in quality wood products.

Specific opportunities for British Columbia wood products include:

- hemlock clears for door and window stock;
- western red cedar panelling; and
- sitka spruce for pianos.

i] Market Study on Housing and Building Materials in the Republic of Korea is a study by Pacific Consultants Corporation commissioned by the Canadian Embassy in 1990. It describes factors creating the growing demand for housing including the creation of five new cities with 340,000 housing units by 1993. An increasing standard of living has resulted in stronger demand for high-quality materials. The demand for imported windows, doors and frames will not increase much because of government policy to protect local manufacturers. The report projects increasing demand for cedar shakes and shingles.

j] Japan '90: Market Study is a report by Ken McClelland on his investigation of the Japanese lumber market for the B.C. Wood Specialties Group. He concluded that this market has "tremendous potential" for British Columbia secondary manufacturers but it is necessary for local producers to understand the Japanese point-of-view and adopt their particular product specifications.

This report discusses opportunities for a wide range of products. It recommends the use of existing relationships and distributors with Japanese representation as the means to entering this market.

k] The Japanese Solid Wood Products Market: Profile and Outlook is a 1989 report for the U.S. Dept. of Commerce. It notes:

- a gradual increase in the consumption of wood products;
- the high cost of the Japanese sawmill industry;
- a two-tiered pricing system; and
- barriers to trade.

This report provides an overall analysis with not many specifics.

l] The Potential in Japan for Remanufactured Wood Products from B.C. is a 1982 report for the provincial Ministry of Industry and Small Business Development. It is noteworthy for its similarity to more recent reports.

m] The Market for Temperate Hardwoods in Japan is a 1987 report that analyzes the competition between hardwoods from Japan, North America and Southeast Asia. It concludes there are increasing opportunities for North American hardwoods.

n] The Italian Wood Products Market: A Survey is a 1988 report by CINTRAFOR. It notes a high-value market for North American softwoods, especially door and window components made from Douglas fir. The Italian market is characterized by sophisticated design concepts which are creating new opportunities for wood products. Joinery blanks require:

- product that machines well;
- high dimensional stability;
- straight grain;
- small growth rings; and
- a low amount of sapwood.

o] Market Study Report on the French Door and Window Industry is a 1983 COFI report. It describes the industry and makes recommendations for increasing the use of hemlock and it predicts an increase in usage of pine and Douglas fir.

p] Market Study on Lodge Pole Pine and White Spruce Opportunities in Europe is a 1991 report for BCWSG. It Assesses the markets in the United Kingdom, Germany, France and Italy by species and by industry. It points out that Scandinavian countries have 80 per cent of the softwood joinery market but that there are substantial opportunities for lodge pole pine and white spruce. The report provides details on quality standards and sizes for each industry in each country and lists contacts for manufacturers, distributors and associations.

q] European Tropical Hardwood Replacement Study is a 1990 BCWSG study. It concludes there is potential for replacing tropical hardwoods with British Columbia secondary wood products. The shipment of logs and lumber from Asia and Africa will diminish due to export restrictions to encourage local processing and growing demand in Asia. The report describes trends in supply and demand and suggests opportunities for British Columbia specialty wood products.

r] European Trip Report is a report by Ken McClelland of his 1989 trip to obtain an overview of the European market for British Columbia specialty wood products. This 40 billion foot board measure market is undergoing changes with a trend toward importing component blanks and semi-finished products for assembly in local manufacturing plants. It analyzes market potential in major countries for 9 types of products.

s] World Demand for Forest Products: Opportunities in the Asia Pacific Region is a 1990 report for the Australian Manufacturing Council. It analyses market opportunities for Australian forest products and concludes that Australia has the potential to become a world-class exporter.

t] India's Lumber Trade Opportunities for Canada is an undated study for External Affairs and International Trade Canada to acquaint Canadian companies with potential opportunities for wood products. India is a fast-growing market with very limited forest resources. India mainly imports hardwood logs to supply its needs. This supply is diminishing, but for Canadian producers to successfully enter the market it is necessary for them to provide:

- competitive prices;
- lower tariffs (now 60 per cent on sawn lumber); and
- education in order to familiarize Indian consumers with Canadian wood.